

November 14, 2009

Division of Data Management
Kentucky Department of Education
Tammy Page
500 Mero Street, CPT 15th Floor
Frankfort, KY 40601

Re: Henderson County School District

Gentlemen:

Please find enclosed two (2) copies of the bound audit report for the Henderson County School District (251) for the year ended June 30, 2008. ~~One~~ copy of the audit report has been transmitted electronically under the file name "AUD_251_08", in Microsoft Word/Excel format.

Very truly

File Name


Neel, Crafton & Phillips, LLP

HENDERSON COUNTY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION
AND INDEPENDENT AUDITOR'S REPORTS

YEAR ENDED JUNE 30, 2008

HENDERSON COUNTY SCHOOL DISTRICT
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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Henderson County School District
Henderson, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Henderson County School District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Henderson County School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the provisions of Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Electronic Submission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Henderson County School District as of June 30, 2008, and the respective changes in financial position and cash flows for its proprietary funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated October 15, 2008, on our consideration of Henderson County School District's internal control structure and a report dated October 15, 2008, on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Henderson County School District's basic financial statements. The budgetary comparison information on page 40 and the combining non-major fund financial statements on pages 41 through 42 are presented for the purpose of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards on page 45 through 46 is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements. The combining non-major fund financial statements and schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole. The introductory section, statistical tables and the budgetary comparison information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly we express no opinion on it.


Neel, Crafton & Phillips, LLP

Henderson, Kentucky
October 15, 2008



**HENDERSON COUNTY BOARD of
EDUCATION
Henderson, Kentucky
MANAGEMENT DISCUSSION and
ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008**

As management of the Henderson County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The beginning Governmental Fund balance for the district was \$19,819,161. The ending balance was \$20,224,053, which was an increase of \$404,892.
- The school district completed the implementation of a 1 Gb fiber optic network connecting all schools with the district's wide area network. The district's internet connection was also improved from a 3.0 Mb to 100 Mb connection speed. There has been an increasing investment in technology infrastructure, computer hardware, educational software, and technology support staff. The district committed \$2.5 Million to technology during the 2007-08 school year.
- The District is in excellent financial condition and has been able to withstand the financial pressures of tight state education budgets without having to impact educational programs or facilities maintenance requirements.
- The district's current assets increased by \$479 Thousand during the year while current liabilities on increased by \$152 Thousand resulting in a current ratio of 5.7 which is a good indicator of the district's strong financial condition.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide the readers with a broad overview of the District's finances, in a manner similar to a private sector business.

- The **Statement of Net Assets** presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving.
- The **Statement of Activities** presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash transactions. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Both of these district-wide statements are divided into two district kinds of activities:

- **Government Activities** – The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (government activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation, and operation of non-instructional services. The fixed assets and related debt that are also supported by taxes and intergovernmental revenues are reported in this section.
- **Business Type Activities** - These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The types of activities reported in this category are the food service operations, childcare centers, and adult education courses. These activities are funded through fees charged and supported by federal grants and federal commodities used in the food service operations.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software system. The District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary, and fiduciary funds.

- **Governmental Funds** - Most of the School District's activities are reported in the governmental funds that include: general fund, special revenue (grants), capital outlay, building fund (FSPK), construction fund, and debt service fund. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed *short-term* view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements provided.
- **Proprietary Funds** - The proprietary fund includes the food service, childcare centers, and adult education that are also found in the business type activities fund. These funds use the same basis of accounting as business type activities; therefore, the statements for the proprietary fund will essentially match.
- **Fiduciary Funds** - The fiduciary funds are trust funds established by benefactors to aid in student education, welfare, and teacher support. The District's fiduciary funds are the school activity funds maintained at the school level.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes may either better

explain data found in the financial statements or provide additional information that is not found in the financial statements provided.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The largest portion of the District's net assets reflects its investment in capital assets (e.g. land and improvements, buildings and improvements, vehicles, furniture and equipment) less any related debt used to acquire those assets, which is outstanding at year-end.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of those capital assets.

Net Assets for the year ending June 30, 2008

	June 30, 2008	June 30, 2007	2008 Change
Current Assets	\$ 24,457,749	\$ 23,978,837	\$ 478,912
Capital or Non-current Assets	34,215,593	35,435,360	(1,219,767)
Total Assets	\$ 58,673,342	\$ 59,414,197	\$ (740,855)
Current Liabilities	\$ 4,264,269	\$ 4,111,828	\$ 152,441
Non-current Liabilities	18,844,555	20,727,039	(1,882,484)
Total Liabilities	\$ 23,108,824	\$ 24,838,867	\$ (1,730,043)
Investment in capital asset (net of debt)	\$ 13,759,560	\$ 13,115,593	\$ 643,967
Restricted	7,324,476	7,149,662	174,814
Unrestricted	14,480,482	14,310,075	170,407
Total Net Assets	\$ 35,564,518	\$ 34,575,330	\$ 989,188

The net total assets exceeded the total liabilities by \$35,564,518, which indicates that the District is in very good financial condition.

The Current Assets increased by \$479 Thousand during the 2008 fiscal year while the Capital Assets decreased by \$1.2 Million. The total revenues for Governmental Funds exceeded expenses by \$405 Thousand during the year, which was the major factor in the increase of current assets. There were no major capital projects during the year other than normal replacement of equipment and computer technology. Total acquisitions during the year totaled \$1.7 Million while depreciation of assets totaled \$2.9 Million. This resulted in a net decrease of capital assets of \$1.2 Million. The normal debt retirement payments resulted in a net reduction of long term liabilities of \$1.9 Million for the year. All of these factors resulted in a net increase in total net assets of \$1.0 Million for the 2007-2008 fiscal year.

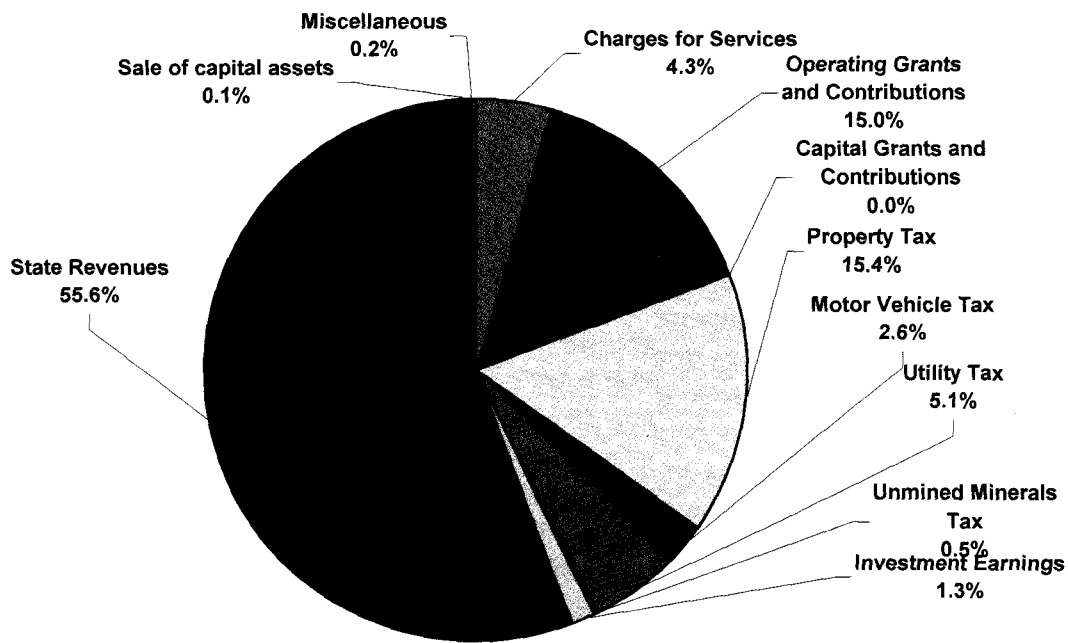
GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

Changes in Net Assets for the year ending June 30, 2008

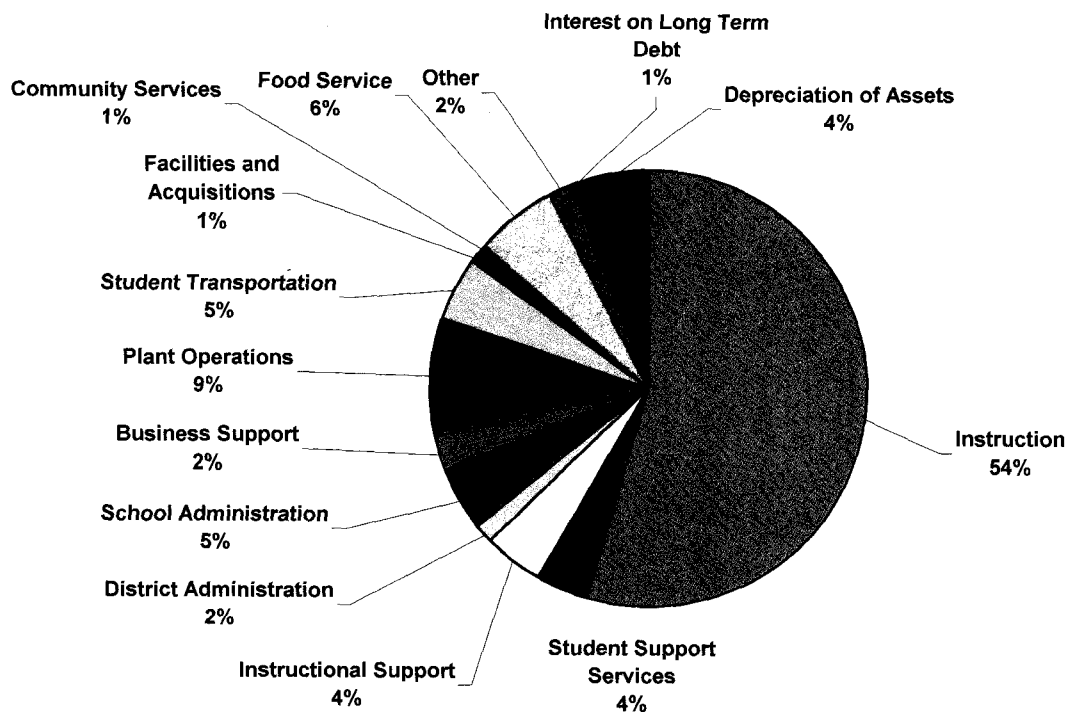
	Governmental Activities	Business Type Activities	Total
Revenues			
Charges for Services	\$ 210,272	\$ 2,691,492	\$ 2,901,764
Operating Grants and Contributions	7,723,838	2,326,327	10,050,165
Capital Grants and Contributions			-
Property Tax	10,330,009		10,330,009
Motor Vehicle Tax	1,777,946		1,777,946
Utility Tax	3,413,004		3,413,004
Unmined Minerals Tax	334,565		334,565
Investment Earnings	849,278		849,278
State Revenues	37,330,654		37,330,654
Sale of capital assets	38,047		38,047
Miscellaneous	152,766		152,766
Total Revenues	\$ 62,160,379	\$ 5,017,819	\$ 67,178,198
Expenses			
Instruction	\$ 35,965,134		\$ 35,965,134
Student Support Services	2,699,468		2,699,468
Instructional Support	2,800,180		2,800,180
District Administration	1,028,142		1,028,142
School Administration	3,188,915		3,188,915
Business Support	1,624,016		1,624,016
Plant Operations	5,745,679		5,745,679
Student Transportation	3,167,855		3,167,855
Facilities and Acquisitions	507,500		507,500
Community Services	542,017		542,017
Food Service		3,874,437	3,874,437
Other		1,202,496	1,202,496
Interest on Long Term Debt	902,449		902,449
Depreciation of Assets	2,901,989		2,901,989
Amortization loan costs	38,734		38,734
Transfers	616	(616)	-
Total Expenses	\$ 61,112,694	\$ 5,076,317	\$ 66,189,011
Net Change in Assets	\$ 1,047,685	\$ (58,498)	\$ 989,187

- The District's total revenues were \$67,178,198 and the total expenditures were \$66,189,011; which resulted in a net increase in Assets of \$989,187 for the year.
- State Revenues accounted for 56% of total revenues and local taxes account for 24%.

Distict-Wide Revenues



District-Wide Expenses

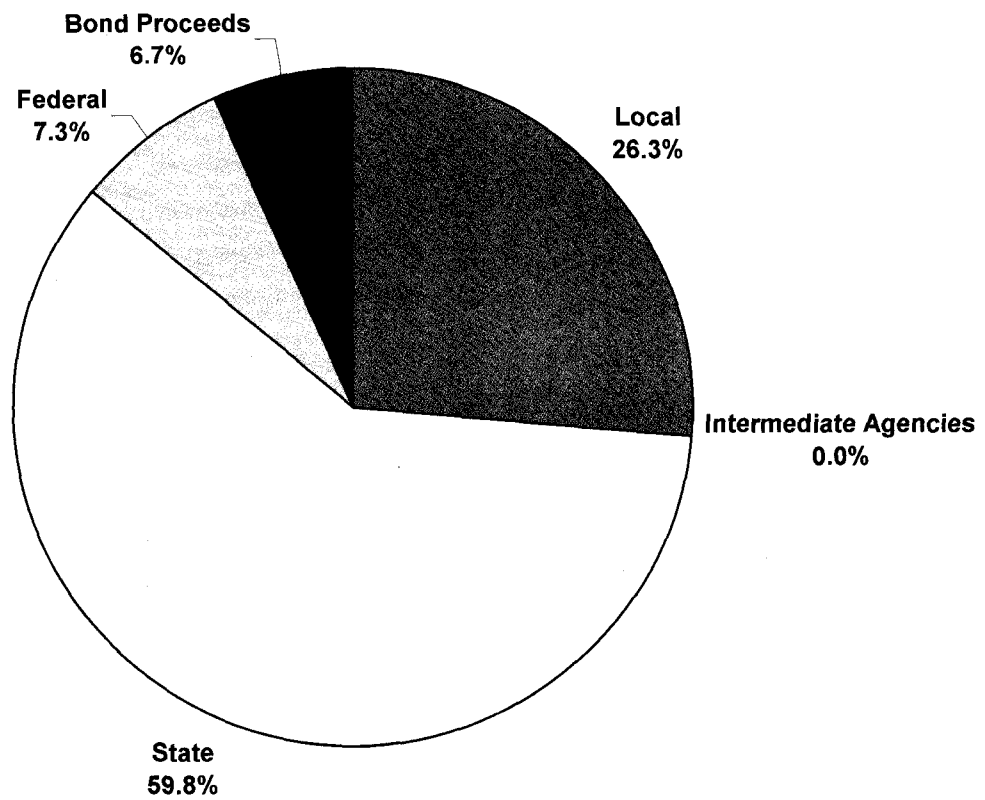


- The Instruction costs account for 54% of all costs. The next largest cost category was plant operations and maintenance at 9%, followed by Food Service at 6%, and School Administration and Student Transportation at 5%, Instructional Support and Depreciation of Assets at 4% each.

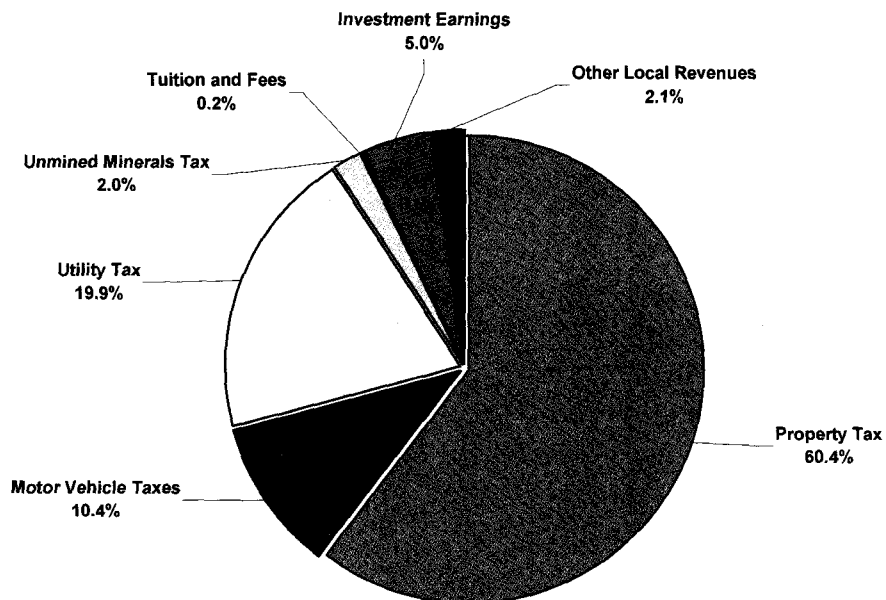
GOVERNMENTAL FUNDS HIGHLIGHTS

- The General Fund revenues for the year were \$50.8 Million, with \$34.9 of this coming from state revenues and the remaining \$15.8 Million from local sources.
- Total General Fund Expenditures were \$50.7 Million, with Instruction cost being the largest area at \$30.8 Million.
- The net excess of revenues over expenses was \$117 Thousand resulting in an increase in fund balance of \$20 Thousand for the 2008 fiscal year.
- The Special Revenue fund expenditures for the year were \$7.9 Million. The two major sources of revenues for these grants were State Grants totaling \$3.6 Million and Federal Grants totaling \$4.0 Million.
- The Other Governmental Funds included Facility construction costs totaling \$0.3 Million.
- The Other Governmental Funds also included Debt Service payments of \$2.0 Million, broken down as \$1.2 Million for principal payments, \$0.8 Million for interest and bank fees.
- The total ending fund balances at June 30, 2008 were \$18.1 Million in the General Fund and \$2.1 Million in Other Governmental funds for a total of \$20.2 Million.

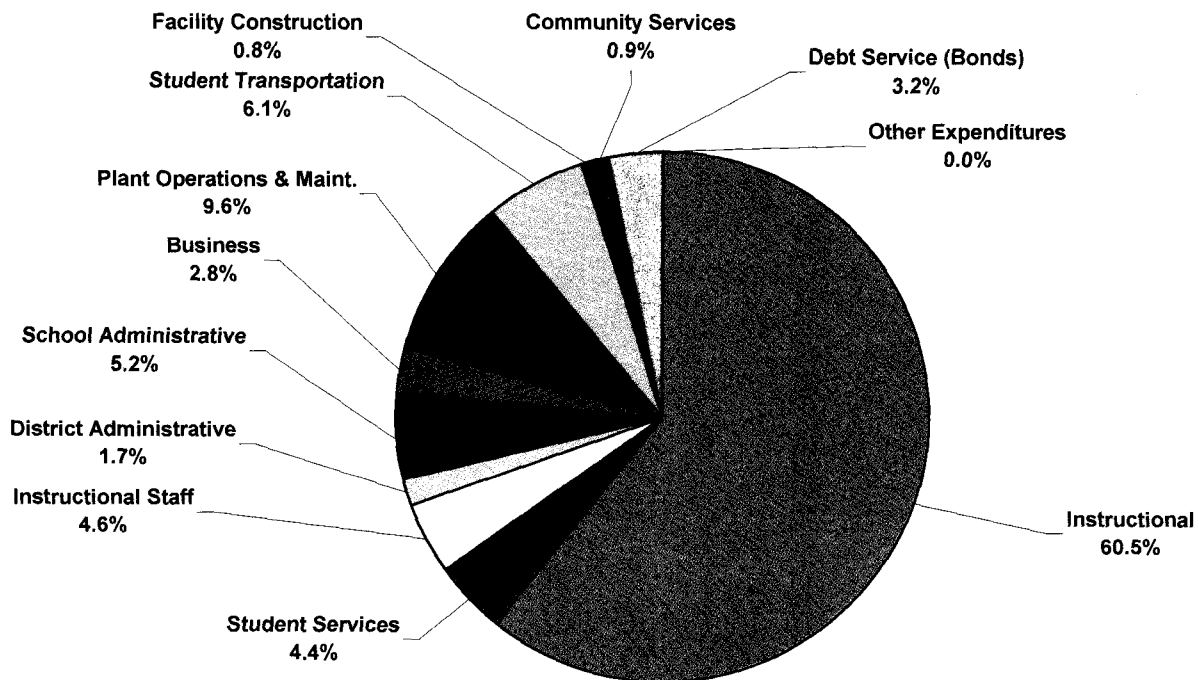
Governmental Fund Revenues: Total of \$61.4 Million



Local Revenues: Total of \$17.1 Million



Governmental Fund Expenses: Total of \$61.0 Million



Comments on General Fund Budget Comparisons

- The Actual Revenues and Expenses both include \$8,676,595 of On-Behalf payments that are not included in the original or final budgets. These represent payments for employee benefits paid at the state level on behalf of the local school district. The comments below are net of these on-behalf payments.
- The total revenues were \$2.9 Million better than the final budget. All line items of revenue were better than budget. The major revenue line items better than budget were \$867 Thousand in property taxes, \$135 Thousand in un-mined minerals taxes, \$428 Thousand in motor vehicle taxes, \$713 Thousand in utility taxes, and \$548 Thousand in investment earnings.
- Total expenditures were below budget by \$2.8 Million. However, the budget included a contingency of \$7.0 Million with no expenditures and the actual included \$8.7 Million of On-Behalf expenses with no corresponding budget. Actual expenses were \$2.9 Million better than budget excluding these two items.
- The majority of this favorable expense variance was in Instruction at \$1.4 Million, followed by Facility Acquisition at \$420 Thousand, and District administration at \$321 Thousand below budget. There were no functional areas over budget when the on-behalf expenses are considered.

FUTURE BUDGETARY IMPLICATIONS

- In Kentucky, the public schools fiscal year is July 1 - June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for 2008 - 2009 with a 12.6% contingency. However, the current economic conditions are a major concern. The local budget contingency includes reserved funds for state economic shortfalls which will be used, if necessary, to protect the current level of direct classroom instruction.

District Challenges for the Future

- The transportation cost for students is a significant financial concern in the current year and for the future. State provided funds are being reduced while most cost components are increasing. The costs of diesel fuel have varied widely over the past two years and continue to be a concern in the future. The cost of bus purchases will continue to increase due to changes in EPA requirements. The district has made significant changes in the bus routes to minimize annual expenses for transportation.
- The financial impact of declining enrollment will be a continuing challenge in the near future. Since 1993-1994, the Henderson County School district has experienced a decline in average daily attendance of 1,076 students. This decline represents a 16% decline over this 14-year period and accounts for a decline of state revenue of approximately \$4.8 million per year. This decline in enrollment has started to stabilize. Although we still anticipate continuing declines, they will be much smaller than we have encountered recently. The challenge will be to continue to attract the very best teachers and to continue to deliver a quality and ever improving education for our students while experiencing a decline in revenues. The projected increase in health care costs is a factor that will impact the state budget over the near future which will also add financial burdens to school districts across Kentucky.
- The school district's test scores are on the rise in the district, but must continue to improve to meet increasing requirements of the federal No Child Left Behind legislation. Several new programs have been initiated in the past few years that will continue to impact test scores in the future. However, many of the programs such as full-day kindergarten, expanded preschool programs, curriculum specialists, and enrichment teams are not funded by the state budget. The district will be challenged to continue to find the resources to fund these important education programs.

Report purpose and contact information:

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, these inquiries should be directed to:

Walt Spencer; Assistant Superintendent of Finance
Henderson County Schools at 1805 Second Street in Henderson, KY 42420
Phone: 270-831-5000 or Email: Walt.Spencer@henderson.kyschools.us

HENDERSON COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities	Business- Type Activities	Total
ASSETS			
<u>Current Assets</u>			
Cash and cash equivalents	\$ 17,379,219	\$ 1,045,342	\$ 18,424,561
Investments - Certificates of deposit	3,300,000	770,000	4,070,000
Inventory	-	106,538	106,538
Accounts receivable			
Taxes - current	463,680	-	463,680
Accounts receivable	145,829	245,022	390,851
Employees	2,532		2,532
Accrued interest	33,135	7,731	40,866
Intergovernmental - Indirect			
Federal	846,256	-	846,256
Prepaid expenses	112,465	-	112,465
Total Current Assets	<u>22,283,116</u>	<u>2,174,633</u>	<u>24,457,749</u>
<u>Noncurrent Assets</u>			
Capital assets, net	33,457,125	342,435	33,799,560
Bond issue cost, net	416,033	-	416,033
Total Noncurrent Assets	<u>33,873,158</u>	<u>342,435</u>	<u>34,215,593</u>
Total Assets	<u>\$ 56,156,274</u>	<u>\$ 2,517,068</u>	<u>\$ 58,673,342</u>
LIABILITIES			
<u>Current Liabilities</u>			
Accounts payable	\$ 775,803	\$ 89,936	\$ 865,739
Accrued payroll and related expenses	423,070	115,191	538,261
Employee withholding taxes	23,996	-	23,996
Deferred revenue	498,757	-	498,757
Current portion of bond obligations	1,895,000	-	1,895,000
Current portion of accrued sick leave	337,437	-	337,437
Interest payable	105,079	-	105,079
Total Current Liabilities	<u>4,059,142</u>	<u>205,127</u>	<u>4,264,269</u>
<u>Noncurrent Liabilities</u>			
Noncurrent portion of bond obligations	18,145,000	-	18,145,000
Noncurrent portion of accrued sick leave	699,555	-	699,555
Total Noncurrent Liabilities	<u>18,844,555</u>	<u>-</u>	<u>18,844,555</u>
Total Liabilities	<u>\$ 22,903,697</u>	<u>\$ 205,127</u>	<u>\$ 23,108,824</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	\$ 13,417,125	\$ 342,435	\$ 13,759,560
Restricted for:			
Capital projects	584,113	-	584,113
Other purposes (nonexpendable)	6,633,825	106,538	6,740,363
Unrestricted	12,617,514	1,862,968	14,480,482
Total Net Assets	<u>\$ 33,252,577</u>	<u>\$ 2,311,941</u>	<u>\$ 35,564,518</u>

See Accompanying Notes to Financial Statements

HENDERSON COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business Type Activities	Total
Governmental Activities:							
Instruction	\$ 35,965,134	\$ 109,857	\$ 7,723,838	\$ -	\$ (28,131,439)	\$ -	\$ (28,131,439)
Support services:							
Student	2,699,468	-	-	-	(2,699,468)	-	(2,699,468)
Instruction staff	2,800,180	-	-	-	(2,800,180)	-	(2,800,180)
District administrative	1,028,142	-	-	-	(1,028,142)	-	(1,028,142)
School administrative	3,188,915	-	-	-	(3,188,915)	-	(3,188,915)
Business	1,624,016	-	-	-	(1,624,016)	-	(1,624,016)
Plant operation and maintenance	5,745,679	23,662	-	-	(5,722,017)	-	(5,722,017)
Student transportation	3,167,855	76,753	-	-	(3,091,102)	-	(3,091,102)
Facilities acquisition and Construction	507,500	-	-	-	(507,500)	-	(507,500)
Community service activities	542,017	-	-	-	(542,017)	-	(542,017)
Interest on long-term debt	902,449	-	-	-	(902,449)	-	(902,449)
Depreciation	2,901,989	-	-	-	(2,901,989)	-	(2,901,989)
Amortization loan cost	38,734	-	-	-	(38,734)	-	(38,734)
Transfers	616	-	-	-	(616)	-	(616)
Total Governmental Services	61,112,694	210,272	7,723,838	-	(53,178,584)	-	(53,178,584)
Business Type Activities:							
Food service	3,874,437	1,530,109	2,326,327	-	-	(18,001)	(18,001)
Other	1,202,496	1,161,383	-	-	-	(41,113)	(41,113)
Transfers	-	-	616	-	-	616	616
Total Business Activities	5,076,933	2,691,492	2,326,943	-	-	(58,498)	(58,498)
Total Primary Government	\$ 66,189,627	\$ 2,901,764	\$ 10,050,781	\$ -	\$ (53,178,584)	\$ (58,498)	\$ (53,237,082)
General Revenues:							
Taxes:							
			Property tax		\$ 10,330,009	\$ -	\$ 10,330,009
			Motor vehicle tax		1,777,946	-	1,777,946
			Utility tax		3,413,004	-	3,413,004
			Unmined minerals		334,565	-	334,565
			Investment earnings		849,278	-	849,278
			State and formula grants		37,330,654	-	37,330,654
			Gain on sales of fixed assets		38,047	-	38,047
			Miscellaneous		152,766	-	152,766
			Change in net assets		1,047,685	(58,498)	989,187
			Net Assets - Beginning as adjusted		32,204,892	2,370,439	34,575,331
			Net Assets - Ending		\$ 33,252,577	\$ 2,311,941	\$ 35,564,518

See Accompanying Notes to Financial Statements

HENDERSON COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	General Fund	Special Revenue	Other Governmental Funds	Total Governmental Funds
ASSETS AND RESOURCES:				
Cash and cash equivalents	\$ 15,255,504	\$ (17,652)	\$ 2,141,367	\$ 17,379,219
Investments - certificate of deposit	3,300,000			3,300,000
Accounts receivable				
Taxes - current	463,680	-	-	463,680
Accounts receivable	145,829	-	-	145,829
Employees	2,532			2,532
Accrued interest	33,135	-		33,135
Intergovernmental - State	-	-	-	-
Intergovernmental - Indirect				
Federal	-	846,256	-	846,256
Prepaid expenses	112,465	-	-	112,465
Total Assets and Resources	\$ 19,313,145	\$ 828,604	\$ 2,141,367	\$ 22,283,116
LIABILITIES AND FUND BALANCES:				
Liabilities				
Accounts payable	\$ 485,588	\$ 271,225	\$ 18,990	\$ 775,803
Accrued payroll and related expenses	364,448	58,622	-	423,070
Employee withholding taxes	23,996	-	-	23,996
Current portion of accumulated sick leave	337,437	-	-	337,437
Deferred revenue	-	498,757	-	498,757
Total Liabilities	1,211,469	828,604	18,990	2,059,063
FUND BALANCES:				
Reserved for:				
Revenue decline	1,607,000	-	-	1,607,000
Program expansions	1,072,000	-	-	1,072,000
Equipment and repairs	2,251,000	-	-	2,251,000
Encumbrances	166,039	-	-	166,039
Construction	-	-	584,113	584,113
KSFCC Escrow	-	-	1,372,221	1,372,221
SFCC	-	-	77,306	77,306
Unreserved:				
Undesignated, reported in:				
General fund	13,005,637	-	-	13,005,637
Other governmental funds	-	-	478	478
Debt service funds	-	-	-	-
FSPK	-	-	88,259	88,259
Total Fund Balances	18,101,676	-	2,122,377	20,224,053
Total Liabilities and Fund Balances	\$ 19,313,145	\$ 828,604	\$ 2,141,367	\$ 22,283,116

See Accompanying Notes to Financial Statements

HENDERSON COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET-
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
Year Ended June 30, 2008

Total fund balance per fund financial statements	\$ 20,224,053
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Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.	33,873,158
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Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets.	<u>(20,844,634)</u>
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Net assets for governmental activities	<u><u>\$ 33,252,577</u></u>
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See Accompanying Notes to Financial Statements

HENDERSON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2008

	General Fund	Special Revenue	Other Governmental Funds	Total Governmental Funds
REVENUES:				
From local sources				
Taxes				
Property	\$ 9,083,254	\$ -	\$ 1,246,755	\$ 10,330,009
Motor vehicle	1,777,946	-	-	1,777,946
Utilities	3,413,004	-	-	3,413,004
Unmined minerals	334,565	-	-	334,565
Tuition and fees	42,751	-	-	42,751
Earnings on investments	797,536	-	51,742	849,278
Other local revenues	320,283	40,772	-	361,055
Intergovernmental - intermediate	-	6,400	-	6,400
Intergovernmental - state	34,934,881	3,649,902	1,361,296	39,946,079
Intergovernmental - indirect federal	63,401	4,008,027	-	4,071,428
Intergovernmental - direct federal	90	223,080	-	223,170
Total Revenues	50,767,711	7,928,181	2,659,793	61,355,685
EXPENDITURES:				
Instruction	30,817,960	6,113,243	-	36,931,203
Support services:				
Student	2,386,115	313,353	-	2,699,468
Instruction staff	1,941,761	858,419	-	2,800,180
District Administrative	1,028,142	-	-	1,028,142
School administrative	3,070,657	118,258	-	3,188,915
Business	1,708,135	-	-	1,708,135
Plant operation and maintenance	5,880,060	-	-	5,880,060
Student transportation	3,614,160	125,297	-	3,739,457
Facilities acquisition and construction	203,823	-	303,677	507,500
Community service activities	-	542,017	-	542,017
Debt service	-	-	1,971,337	1,971,337
Total Expenditures	50,650,813	8,070,587	2,275,014	60,996,414
Excess (deficit) of revenues over expenditures	116,898	(142,406)	384,779	359,271
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of fixed assets	46,237	-	-	46,237
Operating transfers in	-	142,406	2,101,720	2,244,126
Operating transfers out	(143,022)	-	(2,101,720)	(2,244,742)
Total Other Financing Sources (Uses)	(96,785)	142,406	-	45,621
Excess (deficit) of revenue and other financing sources over expenditures and other financing uses	20,113	-	384,779	404,892
Fund balance, June 30, 2007	18,081,563	-	1,737,598	19,819,161
Fund balance, June 30, 2008	<u>\$ 18,101,676</u>	<u>\$ -</u>	<u>\$ 2,122,377</u>	<u>\$ 20,224,053</u>

See Accompanying Notes to Financial Statements

HENDERSON COUNTY SCHOOL DISTRICT
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

Net change in total fund balances per fund financial statements	\$ 404,892
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which depreciation plus loss on disposal of fixed assets expense exceeds capital outlays for the year.	(1,141,491)
Bond issue costs are reported as expenditures in the fund financial statement but are presented as assets in the statement of activities and amortized over the life of the bond issue.	(38,734)
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.	1,825,000
Generally, expenditures recognized in this fund statement are limited to only those that use current resources, but expenses are recognized in the statement of activities when incurred.	<u>(1,982)</u>
Change in net assets of governmental activities	<u>\$ 1,047,685</u>

See Accompanying Notes to Financial Statements

HENDERSON COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2008

	Food Service Fund	Other Enterprise Funds	Total
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 816,606	\$ 228,736	\$ 1,045,342
Investments - certificates of deposit	770,000	-	770,000
Inventory	106,538	-	106,538
Accounts receivable	240,675	4,347	245,022
Accrued interest	7,731	-	7,731
Total Current Assets	<u>1,941,550</u>	<u>233,083</u>	<u>2,174,633</u>
NONCURRENT ASSETS:			
Capital assets	1,307,387	47,516	1,354,903
Less: accumulated depreciation	<u>(1,004,865)</u>	<u>(7,603)</u>	<u>(1,012,468)</u>
Total Noncurrent Assets	<u>302,522</u>	<u>39,913</u>	<u>342,435</u>
Total Assets	<u><u>\$ 2,244,072</u></u>	<u><u>\$ 272,996</u></u>	<u><u>\$ 2,517,068</u></u>
LIABILITIES			
CURRENT LIABILITIES:			
Accounts payable	\$ 83,748	\$ 6,188	\$ 89,936
Accrued payroll and related expenses	<u>30,919</u>	<u>84,272</u>	<u>115,191</u>
Total Current Liabilities	<u>114,667</u>	<u>90,460</u>	<u>205,127</u>
NET ASSETS:			
Invested in capital assets	302,522	39,913	342,435
Reserved for inventories	106,538	-	106,538
Unrestricted	<u>1,720,345</u>	<u>142,623</u>	<u>1,862,968</u>
Total Net Assets	<u>\$ 2,129,405</u>	<u>\$ 182,536</u>	<u>\$ 2,311,941</u>
Total Liabilities and Net Assets	<u><u>\$ 2,244,072</u></u>	<u><u>\$ 272,996</u></u>	<u><u>\$ 2,517,068</u></u>

See Accompanying Notes to Financial Statements

HENDERSON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2008

	Food Service Fund	Other Enterprise Funds	Total
OPERATING REVENUES:			
Lunchroom sales	\$ 1,520,816	\$ -	\$ 1,520,816
Other operating revenues	9,293	1,161,383	1,170,676
Total Operating Revenues	<u>1,530,109</u>	<u>1,161,383</u>	<u>2,691,492</u>
OPERATING EXPENSES:			
Salaries and wages	1,706,576	1,145,033	2,851,609
Materials and supplies	2,007,745	55,562	2,063,307
Depreciation	62,329	1,901	64,230
Other operating expenses	97,787	-	97,787
Total Operating Expenses	<u>3,874,437</u>	<u>1,202,496</u>	<u>5,076,933</u>
Operating income (loss)	(2,344,328)	(41,113)	(2,385,441)
NON-OPERATING REVENUES (EXPENSES):			
Federal grants	1,826,381	-	1,826,381
Donated commodities	196,429	-	196,429
State grants	38,146	-	38,146
Other state	192,471	-	192,471
Interest income	72,900	-	72,900
Total Non-Operating Revenues	<u>2,326,327</u>	<u>-</u>	<u>2,326,327</u>
Net Income (Loss) Before Other Financing Sources	(18,001)	(41,113)	(59,114)
Operating transfers in	-	616	616
Operating transfers out	-	-	-
Net Income (Loss)	<u>(18,001)</u>	<u>(40,497)</u>	<u>(58,498)</u>
Retained earnings, June 30, 2007	2,147,406	223,033	2,370,439
Retained earnings, June 30, 2008	<u>\$ 2,129,405</u>	<u>\$ 182,536</u>	<u>\$ 2,311,941</u>

See Accompanying Notes to Financial Statements

HENDERSON COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from	
Lunchroom sales	\$ 1,520,816
Other activities	1,171,292
Cash paid for	
Employees	(2,845,266)
Supplies	<u>(1,928,634)</u>
Net Cash Used in Operating Activities	(2,081,792)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchases of capital assets	(24,686)
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CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Cash received for operating grants	1,915,148
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CASH FLOWS FROM INVESTING ACTIVITIES

Receipt of interest income	<u>73,805</u>
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Net Decrease in Cash and Cash Equivalents	(117,525)
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Cash and Cash Equivalents, June 30, 2007	<u>1,932,867</u>
Cash and Cash Equivalents, June 30, 2008	<u>\$ 1,815,342</u>

Note:

Cash and cash equivalents consist of the following as of June 30, 2008:

Cash and cash equivalents	\$ 1,045,342
Certificate of deposit	<u>770,000</u>
	<u>\$ 1,815,342</u>

See Accompanying Notes to Financial Statements

HENDERSON COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (Continued)
Year Ended June 30, 2008

RECONCILIATION OF OPERATING LOSS TO NET CASH USED
IN OPERATING ACTIVITIES

Operating Loss	\$ (2,385,441)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	64,230
Donated commodities used in operations	196,429
Changes in operating assets and liabilities	
Inventory	(13,147)
Accounts payable	49,178
Accrued expenses	6,343
Operating transfers in	616
Net cash used in operating activities	<u>\$ (2,081,792)</u>

SCHEDULE OF NON-CASH FINANCING ACTIVITIES

Donated commodities received from federal government	<u>\$ 196,429</u>
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See Accompanying Notes to Financial Statements

HENDERSON COUNTY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 Year Ended June 30, 2008

	<u>Agency Fund</u>
 <u>ASSETS</u>	
Cash and cash equivalents	\$ 615,763
Accounts receivable	17,305
Total Assets	<u>\$ 633,068</u>
 <u>Liabilities</u>	
Accounts payable	\$ 38,579
Due to Student groups	594,489
Net Liabilities	<u>\$ 633,068</u>
Net Assets	<u>\$ -</u>

See Accompanying Notes to Financial Statements

HENDERSON COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2008

	<u>Agency Fund</u>
Additions	
Revenues from student activities	\$ 1,795,577
Deductions	
Expenses paid for student activities	<u>1,718,715</u>
Changes in Net Assets	76,862
Net assets, beginning of year	-
Increase in amount due student groups	<u>76,862</u>
Net assets, end of year	<u><u>\$ -</u></u>

See Accompanying Notes to Financial Statements

HENDERSON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Henderson County Board of Education (“Board”), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Henderson County Board of Education (“District”). The District receives funding from Local, State, and Federal Government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal members.

The District, for financial purposes, includes all the funds and account groups relevant to the operation of the Henderson County Board of Education. The financial statements presented herein do not include funds of groups or organizations, which although associated with the school system, have not originated with the Board itself such as band boosters, parent-teacher associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Henderson County Board of Education Finance Corporation – In March, 1989, the Board of Education resolved to authorize the establishment of the Henderson County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors.

BASIS OF PRESENTATION

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

HENDERSON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statement – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I) Government Fund Types

- A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in the report on page 41. This is a major fund of the District.
- C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).

HENDERSON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 1) The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
- 2) The Facility Support Program of Kentucky (KSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
- 3) The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

D) Debt Service Funds

The Debt Service Funds are used to account for the accumulation of resources for, the payment of, general long-term debt principal and interest and related costs; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II) Proprietary Fund Types (Enterprise Fund)

- A) The Food Service Fund is used to account for school food service activities, including the National School Lunch Program which is conducted in cooperation with the U. S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contributions of commodities from the USDA.
- B) The Day Care Center Fund is used to account for all day care centers.
- C) The Community Education Fund is used for adult education.
- D) The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III) Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

- A) The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.

HENDERSON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF ACCOUNTING

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Non-exchange transaction, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levies. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental funds accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

HENDERSON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

PROPERTY TAXES

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2008, to finance the General Fund operations were \$.464 per \$100 valuation for real property, \$.466 per \$100 valuation for business personal property and \$.548 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishing, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural artificial and mixed gas.

CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical costs) and updated for additions and retirements during the year. Donated fixed assets are reported at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Depreciation</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25 - 50 Years
Land improvements	20 Years
Technology equipment	5 Years
Vehicles	5 -10 Years
Audio-visual equipment	15 Years
Food service equipment	10 - 12 Years
Furniture and fixtures	7 Years
Rolling stock	15 Years
Other	10 Years

HENDERSON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INTER-FUND BALANCES

On fund financial statements, receivables and payables resulting from short-term inter-fund loans are classified as "inter-fund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid assured sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund.

BUDGETARY PROCESS

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Account Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP)

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per Board policy all amendments require Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end dictated by law.

Each budget is prepared and controlled by the finance officer at the revenue and expenditure function/objective level. All budget appropriations lapse at year-end.

CASH AND CASH EQUIVALENTS

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

HENDERSON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVENTORIES

On government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The Food Service Fund uses the specific identification method.

PREPAID ASSETS

Payments made that will benefit periods beyond June 30, 2008, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which the services are consumed.

ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

FUND BALANCE RESERVES

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for fixed assets.

NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

HENDERSON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, those revenues are primarily charges for meals provided by the various schools.

INTER-FUND ACTIVITIES

Exchange transactions between funds are reported as revenues, in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as inter-fund activities. Inter-fund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of American requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – CASH AND CASH EQUIVALENTS AND INVESTMENTS

At year-end, the carrying amount of the District's cash and cash equivalents was \$19,040,324 and investments were \$4,070,000. Of the total cash balance, \$100,000 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less. Investments held by the District at June 30, 2008, consisted of certificates of deposit with a maturity of more than 90 days.

Cash and cash equivalents and investments at June 30, 2008, consisted of the following:

Ohio Valley Financial Group	\$ 22,494,561
Ohio Valley Financial Group (agency funds)	<u>615,763</u>
	<u>\$ 23,110,324</u>

Breakdown per financial statements:

Governmental funds	\$ 20,679,219
Proprietary funds	1,815,342
Agency funds	<u>615,763</u>
	<u>\$ 23,110,324</u>

HENDERSON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

Under Kentucky Revised Statutes Section 66.480, the District is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts backed by the full faith and credit of the United States or of its agencies, obligations or any corporation of the United States government, certificates of deposit, commercial paper rated in one of the three highest categories of nationally recognized rating agencies and shares in mutual funds.

Interest rate risk: The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk: State law limits the types of investments in which the District may invest its funds. The District believes it is in compliance with the law in this matter and has no investment policy that would further limit its investment choices.

Concentration of credit risk: The District places no limit on the amount it may invest in any one investment.

NOTE D – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Governmental Activities				
Land	\$ 989,487	\$ -	\$ -	\$ 989,487
Land and improvements	3,401,724	-	-	3,401,724
Building and improvements	56,015,377	117,757	-	56,133,134
Technology equipment	3,841,271	1,050,719	671,909	4,220,081
Vehicles	6,672,201	524,087	-	7,196,288
Other	1,741,556	75,150	25,224	1,791,482
Totals at Historical Cost	72,661,616	1,767,713	697,133	73,732,196
Less: accumulated depreciation				
Buildings and improvements	27,235,797	1,879,576	-	29,115,373
Land improvements	1,833,380	108,224	-	1,941,604
Vehicles	5,162,426	333,914	-	5,496,340
Technology equipment	2,663,822	490,296	670,177	2,483,941
Other	1,167,576	89,979	19,742	1,237,813
Total accumulated depreciation	38,063,001	2,901,989	689,919	40,275,071
 Governmental Activities Capital Assets - Net	 \$ 34,598,615	 \$ (1,134,276)	 \$ 7,214	 \$ 33,457,125

HENDERSON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE D – CAPITAL ASSETS (CONTINUED)

Business-Type Activities	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Building and improvements	\$ 47,516	\$ -	\$ -	\$ 47,516
Food Service and equipment	1,161,602	23,479	-	1,185,081
Technology equipment	125,550	1,196	4,440	122,306
Totals at Historical Cost	1,334,668	24,675	4,440	1,354,903
Less: accumulated depreciation				
Building and improvements	5,702	1,901	-	7,603
Food service equipment	887,053	41,119	-	928,172
Technology equipment	59,934	21,199	4,440	76,693
Total accumulated depreciation	952,689	64,219	4,440	1,012,468
Business-Type Activities Capital Assets - Net	<u>\$ 381,979</u>	<u>\$ (39,544)</u>	<u>\$ -</u>	<u>\$ 342,435</u>

Depreciation expenses were not allocated to governmental functions. It appears on the statement of assets as "unallocated".

NOTE E – BONDED DEBT AND LEASE OBLIGATIONS

The original amount of each issue, the issue date and interest rates are summarized below:

Issue Date	Issue Name	Original Amount	Interest Rate	Maturity Date
1995	Cairo and Niagara Schools	585,000	4.40 - 4.75%	2009
1998	South Middle School	3,755,000	4.00 - 4.65%	2015
1999	Jefferson/Chandler Refinancing	5,000,000	3.35 - 4.10%	2011
1999	North Middle School	3,240,000	3.60 - 5.00%	2019
1999	Henderson County High - Phase I	4,335,000	5.00 - 5.40%	2019
2000	QZAB	3,069,000	0.00%	2014
2001	Henderson County High - Phase II	4,735,000	4.25 - 4.60%	2121
2004	Henderson County High School, South Middle School	1,095,000	3.25 - 5.00%	2024
2004	Henderson County High School,	1,790,000	1.50 - 4.40%	2024
2004	93 Bend Gate Refinancing	2,225,000	1.80 - 3.35%	2013
2005	95 Refinancing	1,830,000	2.45 - 3.73%	2015
2007	99 Refinancing	4,095,000	3.50 - 3.75%	2019

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Henderson County Fiscal Court to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

HENDERSON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE E – BONDED DEBT AND LEASE OBLIGATIONS (CONTINUED)

In connection with the school revenue bonds the District entered into “participation agreements” with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statement.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming re called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2008, for debt service (principal and interest) are as follows:

YEAR	HENDERSON COUNTY SCHOOL BOARD		KENTUCKY SCHOOL CONSTRUCTION COMMISSION		TOTAL
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2008-2009	\$ 1,317,396	\$ 636,568	\$ 577,604	\$ 192,051	\$ 2,723,619
2009-2010	1,360,558	580,940	369,442	168,666	2,479,606
2010-2011	1,379,110	523,330	305,890	155,173	2,363,503
2011-2012	1,240,649	467,203	314,351	143,653	2,165,856
2012-2013	1,286,392	418,712	323,608	131,548	2,160,260
2013-2014	1,345,528	366,850	324,472	118,745	2,155,595
2014-2015	1,264,015	316,382	295,985	106,202	1,982,584
2015-2016	1,141,902	263,373	293,098	93,505	1,791,878
2016-2017	1,182,614	213,741	307,386	80,616	1,784,357
2017-2018	1,242,901	161,947	322,099	67,103	1,794,050
2018-2019	1,126,201	107,081	263,799	52,845	1,549,926
2019-2020	853,667	57,784	276,333	41,210	1,228,994
2020-2021	375,784	32,276	289,216	28,814	726,090
2021-2022	95,000	14,810	115,000	15,840	240,650
2022-2023	100,000	10,250	120,000	10,780	241,030
2023-2024	105,000	5,250	125,000	5,500	240,750
	<u>\$ 15,416,717</u>	<u>\$ 4,176,497</u>	<u>\$ 4,623,283</u>	<u>\$ 1,412,251</u>	<u>\$ 25,628,748</u>

Defeased Bonds

As of June 30, 2008, the outstanding principal amount of indebtedness that is considered to be extinguished under “in substance defeasance” and therefore excluded from the financial statements was approximately \$ 3,770,000.

HENDERSON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE F – LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2008, was as follows:

Governmental Activities	Balance June 30, 2007	Additions	Deductions	Balance June 30, 2008	Due Within One Year
Long-term debt - School					
Building Revenue Bonds	\$ 21,865,000	\$ -	\$ 1,825,000	\$ 20,040,000	\$ 1,895,000
Compensated Absences					
Accrued sick leave	962,047	457,008	382,063	1,036,992	337,437
Total Long-Term Liabilities	<u>\$ 22,827,047</u>	<u>\$ 457,008</u>	<u>\$ 2,207,063</u>	<u>\$ 21,076,992</u>	<u>\$ 2,232,437</u>

NOTE G – ACCRUED SICK LEAVE

In accordance with generally accepted governmental accounting principles, the District has recorded accrued sick leave as a liability in the District-wide statement of net assets since the majority of these liabilities are not expected to be liquidated with expendable available financial resources. Accrued sick leave, which has no maximum accumulation, is payable upon retirement at 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the District's past experience of making termination payments.

Compensated absences are generally liquidated by the General Fund.

NOTE H – RETIREMENT PLANS

Certified employees are covered under the Kentucky Teachers Retirement System ("KTRS"). Funding for the Plan is provided through payroll withholding of 9.855% and matching state contributions. The matching contributions are paid by the Federal programs for any salaries paid by that program.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System ("CERS"), a cost sharing, multiple-employer, public employers retirement system. Funding for the Plan is provided through payroll withholding of 5% and a Board contribution of 13.19% of the employee's total compensation subject to contribution.

The Board's total payroll for the year was \$38,323,676. The payroll for employees covered under KTRS was \$29,333,164 and for CERS was \$8,990,512.

The contribution requirement for CERS for the year ended June 30, 2008, was \$1,903,373, which consisted of \$1,453,845 from the Board and \$449,528 from the employees. Contributions for the years ended June 30, 2007, and June 30, 2006, were \$1,407,352 and \$1,314,372 respectively.

HENDERSON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE H – RETIREMENT PLANS (CONTINUED)

The contribution requirement for KTRS for the year ended June 30, 2008, was \$3,147,510, which consisted of \$256,725 from the Board and \$2,890,785 from the employees. Contributions for the years ended June 30, 2007, and June 30, 2006, were \$2,845,481 and \$2,535,252 respectively.

Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers.

Ten-year historical trend information showing KTRS's and CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2008, comprehensive annual financial reports.

As the District is only one of several employers participating in the Plan, it is not practicable to determine the District's portion of the unfunded past service cost or the vested benefits of the District's portion of the Plan assets.

The District also offers employees the option to participate in a defined contribution plan under Section 403(b), and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amounts allowable by law. The District does not contribute to these plans.

NOTE I – CONTINGENCIES

The District receives funding from Federal, State, and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and reimbursed disbursement, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantor's satisfaction that the funds provided are being spent as intended and the grantor's intent to continue their programs.

In addition, the District operates in a heavily regulated environment. The operations of the District are subject to the administrative directives, rules and regulations of federal and state regulatory agencies, including, but not limited to, the U. S. Department of Education and the Kentucky Department of Education. Such administrative directives, rules and regulations are subject to change by an act of Congress or the Kentucky Legislature or an administrative change mandated by the Kentucky Department of Education. Such changes may occur with little or inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

HENDERSON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE J- INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risk of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes Workers' Compensation Insurance.

NOTE K- RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. The public entity risk pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro-rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Funds; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE L - DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenue over expenditures resulting in a corresponding reduction of fund balance:

Food Service Fund	\$	18,001
Other Enterprise Funds		41,113
Debt Service Fund		454

NOTE M - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the District at risk for a substantial loss (contingency).

HENDERSON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General	Community Education	Transfer	\$ 616
General	Special Revenue	Technology Match	142,406
Capital Outlay	Construction	Construction	132,000
Construction	Debt Service	Debt Service	45,000
FSPK	Debt Service	Debt Service	1,924,720
Child Nutrition	General	Indirect Costs	97,786

NOTE O – ON-BEHALF PAYMENTS

For the year ended June 30, 2008, total payments of \$8,998,184 were made for life insurance, health insurance, Kentucky Teachers Retirement System ("KTRS") matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts on the statement of activities and on the statement of revenues, expenditures and changes in fund balances. These revenues and expenditures are not budgeted by the District.

SUPPLEMENTARY INFORMATION

HENDERSON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
Year Ended June 30, 2008

	BUDGETED AMOUNTS			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES:				
From local sources				
Taxes				
Property	\$ 8,008,440	\$ 8,215,762	\$ 9,083,254	\$ 867,492
Motor veicle and watercraft	1,350,000	1,350,000	1,777,946	427,946
Utilities	2,700,000	2,700,000	3,413,004	713,004
Unmined minerals	185,000	200,000	334,565	134,565
Tution and fees	20,000	20,000	42,751	22,751
Earnings on investments	250,000	250,000	797,536	547,536
Other local revenues	364,051	269,798	320,283	50,485
Intergovernmental - state	26,200,657	26,169,670	34,934,881	8,765,211
Intergovernmental - direct federal	25,000	25,000	63,401	38,401
Intergovernmental - indirect federal	-	-	90	90
Total Revenues	39,103,148	39,200,230	50,767,711	11,567,481
EXPENDITURES:				
Instruction	25,374,969	25,523,400	30,817,960	(5,294,560)
Support services:				
Student	1,826,471	1,905,855	2,386,115	(480,260)
Instruction staff	2,015,349	2,031,862	1,941,761	90,101
District administrative	1,306,857	1,306,857	1,028,142	278,715
School administrative	6,487,320	9,761,165	3,070,657	6,690,508
Business	1,375,382	1,727,886	1,708,135	19,751
Plant operation & maintenance	5,519,758	5,565,979	5,880,060	(314,081)
Student transportation	3,404,793	3,432,012	3,614,160	(182,148)
Facilities acquisition and construction	450,000	623,912	203,823	420,089
Total Expenditures	47,760,899	51,878,928	50,650,813	1,228,115
Excess (deficit) of revenues over expenditures	(8,657,751)	(12,678,698)	116,898	12,795,596
OTHER FINANCING SOURSES (USES):				
Proceeds from sale of fixed assets	-	-	46,237	46,237
Operating transfers out	(100,000)	(100,000)	(143,022)	(43,022)
Total Other Financing Sorces (Uses)	(100,000)	(100,000)	(96,785)	3,215
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(8,757,751)	(12,778,698)	20,113	1,279,811
Fund balance, June 30, 2007	(8,757,751)	12,778,698	18,081,563	5,302,865
Fund balance, June 30, 2008	\$ -	\$ -	\$ 18,101,676	\$ 18,101,676

See Accompanying Notes to Financial Statements

HENDERSON COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2008

	Construction Fund	FSPK Fund	SEEK Capital Outlay Fund	Debt Service Fund	Total Non-Major Governmental Funds
ASSETS AND RESOURCES:					
Cash and cash equivalents	\$ 603,103	\$ 644,340	\$ 893,446	\$ 478	\$ 2,141,367
Inventory	-	-	-	-	-
Accounts receivable	-	-	-	-	-
Taxes - current	-	-	-	-	-
Taxes - delinquent	-	-	-	-	-
Accounts receivable	-	-	-	-	-
Intergovernmental - State	-	-	-	-	-
Intergovernmental - Indirect Federal	-	-	-	-	-
Intergovernmental - Direct Federal	-	-	-	-	-
Prepaid expenses	-	-	-	-	-
Due from other funds	-	-	-	-	-
Interest receivable	-	-	-	-	-
Investments	-	-	-	-	-
Furniture and equipment, net	-	-	-	-	-
Total Assets and Resources	\$ 603,103	\$ 644,340	\$ 893,446	\$ 478	\$ 2,141,367
LIABILITIES AND FUND BALANCES:					
Liabilities					
Accounts payable	\$ 18,990	\$ -	\$ -	\$ -	\$ 18,990
Accrued payroll and related expenses	-	-	-	-	-
Current portion of accumulated sick leave	-	-	-	-	-
Deferred income	-	-	-	-	-
Total Liabilities	18,990	-	-	-	18,990
FUND BALANCES:					
Reserved for:					
Construction	584,113	-	-	-	584,113
Encumbrances	-	-	-	-	-
Accrued sick leave	-	-	-	-	-
KSFOC escrow	-	478,775	893,446	-	1,372,221
SFOC	-	77,306	-	-	77,306
Unreserved:					
Undesignated, reported in:					
Capital outlay fund	-	-	-	-	-
FSPK fund	-	88,259	-	-	88,259
Capital projects funds	-	-	-	-	-
Debt service funds	-	-	-	478	478
Permanent funds	-	-	-	-	-
Total Fund Balances	584,113	644,340	893,446	478	2,122,377
Total Liabilities and Fund Balances	\$ 603,103	\$ 644,340	\$ 893,446	\$ 478	\$ 2,141,367

HENDERSON COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2008

	Construction Fund	FSPK Fund	SESK Capital Outlay Fund	Debt Service Fund	Total Non-major Governmental Funds
REVENUES:					
From local sources:					
Taxes:					
Property	\$ -	\$ 1,246,755	\$ -	\$ -	\$ 1,246,755
Earnings on investments	-	28,119	22,460	1,163	51,742
Intergovernmental - State	-	738,106	623,190	-	1,361,296
Insurance proceeds	-	-	-	-	-
Bond proceeds	-	-	-	-	-
Total Revenues	\$ -	\$ 2,012,980	\$ 645,650	\$ 1,163	\$ 2,659,793
EXPENDITURES:					
Facilities and construction	303,677	-	-	-	303,677
Debt service	-	-	-	1,971,337	1,971,337
Total Expenditures	303,677	-	-	1,971,337	2,275,014
Excess (deficit) of revenues over expenditures	(303,677)	2,012,980	645,650	(1,970,174)	384,779
OTHER FINANCING SOURCES (USES):					
Operating transfers in	132,000	-	-	1,969,720	2,101,720
Operating transfers out	(45,000)	(1,924,720)	(132,000)	-	(2,101,720)
Total Other Financing Sources (Uses)	87,000	(1,924,720)	(132,000)	1,969,720	-
Excess (deficit) of revenues and other financing sources over expenditures and other financing sources (uses)	(216,677)	88,260	513,650	(454)	384,779
Fund balance, June 30, 2007	800,790	556,080	379,796	932	1,737,598
Fund balance, June 30, 2008	\$ 584,113	\$ 644,340	\$ 893,446	\$ 478	\$ 2,122,377

HENDERSON COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE -
HENDERSON COUNTY HIGH SCHOOL
Year Ended June 30, 2008

	Cash Balance July 1, 2007	Receipts For Year	Disbursements For Year	Cash Balance June 30, 2008	Accounts Receivable	Accounts Payable	Fund Balance June 30, 2008
ACCOUNTS:							
Henderson County High School							
Art	\$ 580	\$ 171	\$ 45	\$ 706	\$ -	\$ -	\$ 706
Athletic	294	159,897	153,795	6,396	-	5,708	688
Athletic Booster Club	6,134	51,574	54,589	3,119	-	1,281	1,838
Archery Building Fund	2,500	52,749	3,000	52,249	-	-	52,249
Band	1,279	2,015	2,896	398	-	-	398
Bookstore	7,632	21,838	21,996	7,474	-	-	6,620
Clubs	120,357	505,005	556,068	159,294	-	854	131,515
General Fund	11,074	24,127	20,632	14,569	-	27,779	13,532
Industrial Technology	2,230	6,010	5,718	2,522	-	1,037	2,446
Media	46,556	39,266	34,796	51,026	-	76	51,026
Memorial Funds	7,654	5,625	4,000	9,279	-	-	9,279
Lunchroom Charges	11	68	68	11	-	-	11
School Concessions	6,540	22,250	22,719	6,071	-	220	5,851
Supplies	16,579	43,786	39,341	21,024	-	-	21,024
Speech and Drama	3,704	2,240	3,698	2,246	-	-	2,246
Student Council	393	5,030	5,335	88	-	-	88
Textbooks	1,000	75,240	67,601	8,639	15,218	271	23,586
Teachers Dual Credit Fund	3,351	-	3,000	351	-	-	351
Certificate of Deposit	13,090	527	500	13,117	-	-	13,117
Money Market	-	-	-	-	-	-	-
	<u>\$ 250,958</u>	<u>\$ 1,107,418</u>	<u>\$ 999,797</u>	<u>\$ 358,579</u>	<u>\$ 15,218</u>	<u>\$ 37,226</u>	<u>\$ 336,571</u>

HENDERSON COUNTY SCHOOL DISTRICT
 STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
 HENDERSON COUNTY MIDDLE AND ELEMENTARY SCHOOLS
 Year Ended June 30, 2008

	Cash Balance July 1, 2007	Receipts For Year	Disbursements For Year	Cash Balance June 30, 2008	Accounts Receivable	Accounts Payable	Fund Balance June 30, 2008
SCHOOL ACTIVITY FUNDS:							
Bend Gate Elementary	\$ 10,293	\$ 30,575	\$ 30,342	\$ 10,526	\$ -	\$ -	10,526
Cairo Elementary	10,591	20,883	22,045	9,429	-	-	9,429
Central Learning Center	14,254	9,086	23,009	331	-	-	331
Chandler Elementary	32,012	31,179	41,870	21,321	-	-	21,321
East Heights Elementary	6,577	58,185	57,048	7,714	-	-	7,714
Jefferson Elementary	12,408	30,657	23,985	19,080	-	-	19,080
Niagara Elementary	15,692	38,734	40,893	13,533	-	-	13,533
South Heights Elementary	10,140	70,818	63,893	17,065	-	-	17,065
Spottsville Elementary	20,305	31,760	32,182	19,883	-	-	19,883
North Middle School	91,724	181,785	183,781	89,728	1,114	1,052	89,790
South Middle School	66,250	196,731	214,407	48,574	973	301	49,246
	<u>\$ 290,246</u>	<u>\$ 700,393</u>	<u>\$ 733,455</u>	<u>\$ 257,184</u>	<u>\$ 2,087</u>	<u>\$ 1,353</u>	<u>\$ 257,918</u>

SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS

HENDERSON COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2008

<u>Federal Grantor Pass Through Grantor/ Program Titles</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Identifying Number</u>	<u>Federal Expenditures</u>
<u>Passed Through State Department of Education</u>			
<u>U. S. Department of Agriculture</u>			
Food Donation and Child Nutrition Cluster	10.550-10.555		\$ 3,626,084
<u>U. S. Department of Education</u>			
<u>Special Education Cluster</u>			
Special Education - FY 04	84.027 A	051-251-01	\$ 5
Special Education - FY 07	84.027 A	251-251-01	677,970
Special Education - FY 08	84.027 A	051-251-01	866,319
Special Education Preschool FY 07	84.173	051-251-01P	44,241
Special Education Preschool FY 08	84.173	051-251-01P	72,752
			<u>\$ 1,661,287</u>
Title 1 - FY 07	84.010	051-251-01A	\$ 262,775
Title 1 - FY 08	84.010	051-251-01A	1,306,861
Title 1 - School Improvement	84.010 A		49,539
Title 1 - Homeless Assistance	84.196 A	M-06174963	16,210
			<u>\$ 1,635,385</u>
Safe & Drug Free Grant - ST FY 07	84.186	3-01-251	\$ 32,529
Safe & Drug Free Grant - ST FY 08	84.186	3-01-251	9,911
			<u>42,440</u>
Even Start Family Literacy FY 07	84.213 C	M-04162251	\$ 12,389
Even Start Family Literacy FY 08	84.213 C	M-06135153	81,004
			<u>\$ 93,393</u>
Title II - Teacher Quality	84.367 A		\$ 358,237
Title II - Part D ED Tech FY 06	84.318 x		68
Title II - Part D FY 07	84.318 x		775
Title II - Part D FY 08	84.318 X		15,162
Title II - Enhancing Education	84.318 X		72,577
Vocation Ed - FY 07	84.048		17,871
Vocation Ed - FY 08	84.048		70,621
Limited English Proficiency	84.365 A		2,554
Title III - Immigrant	84.3600 SA		3,846
Migrant Program - FY 07	84.011	051-251-01M	53,823
Migrant Program - FY 08	84.011	051-251-01M	48,871
			<u>\$ 644,405</u>
Title V - Innovative Ed Strategies FY 07	84.298		\$ 2,807
Title V - Innovative Ed Strategies FY 08	84.298		7,943
			<u>\$ 10,750</u>
Total U. S. Department of Education			<u>\$ 4,087,660</u>
<u>U. S. DEPARTMENT OF LABOR</u>			
Technology Prep	84.243		\$ 15,000
<u>U. S. DEPARTMENT OF DEFENSE</u>			
R.O.T.C. FY 05	12.000	504	\$ 72,544
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Physical Education Program	84.215 F		\$ 57,142
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 7,858,430</u>

HENDERSON COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2008

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Henderson County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION

Non-monetary assistance is reported in the schedule at the fair value of the commodities disbursed.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

HENDERSON COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2008

A) SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the general purpose financial statements of the Henderson County School District.
2. No significant deficiencies are reported in the Schedule of Significant Deficiencies in Part B of this schedule.
3. No instances of non-compliance material to the financial statements of Henderson County School District were disclosed during the audit. No instances of non-compliance not material to the financial statements are reported in Part B of this Schedule.
4. The auditor's report on compliance for the major federal award programs for Henderson County School District expresses an unqualified opinion.
5. There were no audit findings relative to the major federal award programs for Henderson County School District required to be reported in Part C of this Schedule.
6. The programs tested as major programs included:

	<u>CDFA #</u>
1) Title I	84.010
2) Special Education Cluster	84.027 A, 84.173
3) Child Nutrition Cluster	10.550 - 10.555
4) Title II - Teacher Quality	84.367 A

7. The threshold for distinguishing Types A and B programs was \$300,000.
8. Henderson County School District qualified as a low-risk auditee.

B FINANCIAL STATEMENT FINDINGS

Compliance Findings

None

Significant Deficiencies

None

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

HENDERSON COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2008

There are no prior year audit findings.

INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Henderson County School District
Henderson, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Henderson County School District as of and for the year ended June 30, 2008, which collectively comprise Henderson County School District's basic financial statements and have issued our report thereon dated October 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Henderson County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Henderson County School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Henderson County School District's internal control over financial reporting.

A control deficiency exist when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Henderson County School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Henderson County School District's financial statements that is more than inconsequential will not be prevented or detected by Henderson County School District's internal control.

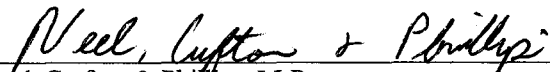
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Henderson County School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weakness. We did not identify any deficiencies in internal control over financial reporting that we considered to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Henderson County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of Kentucky State Committee of School District Audits, the members of the Board of Education of Henderson County School District, the Kentucky Department of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Neel, Crafton & Phillips, LLP

Henderson, Kentucky
October 15, 2008

INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Henderson County School District
Henderson, Kentucky

Compliance

We have audited the compliance of Henderson County School District with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. Henderson County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Henderson County School District's management. Our responsibility is to express an opinion on Henderson County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Henderson County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Henderson County School District's compliance with those requirements.

In our opinion, Henderson County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Henderson County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Henderson County School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Henderson County School District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Kentucky State Committee for School District Audits, the members of the Board of Education of Henderson County School District, the Kentucky Department of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Neel, Crafton & Phillips, LLP

Henderson, Kentucky
October 15, 2008